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MEMORANDUM FOR: Mr. Nicholas G. Andrews
Director
Office of Eastern European Affairs
Department of State

STAT

SUBJECT : Exchange Rates and Revaluations in Eastern Europe

REFERENCE : Your memorandum, subject as above, dated 29 November 1974

As you requested, I am forwarding herewith a paper entitled Eastern Europe: A Brief Primer on Foreign Exchange Rates.

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Attachment:
As stated.

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Eastern Europe: A Brief Primer on Foreign Exchange Rates

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23 December 1974

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exchange rates for the individual East European currencies in December 1974. The following tabulation compares the rates for December 1974 derived through the ruble/dollar exchange rate with the latest official rates per dollar announced by the countries themselves:

	Currency Units Per Dollar	
	Cross Rate Based on Ruble-Dollar Rate of Dec 74	Latest Quoted Official Rate
Bulgaria (leva)	.97	.98 (Dec 73)
Czechoslovakia (crown)	5.96	5.84 (Nov 74)
East Germany (mark)	1.84	2.50 (see the text)
Hungary (forint)	9.71	9.15 (Dec 73)
Poland (zloty)	3.31	3.32 (Oct 74)
Romania (lei)	4.97	4.97 (Aug 74)

East Germany, for political reasons, insists that its official dollar exchange rate is the same as West Germany's. In the other cases, the rates in the tabulation would presumably be the same if the dates were identical, that is, if the East European governments faithfully followed the monthly changes in the ruble-dollar exchange rate announced by Moscow. However, the governments make their announcements irregularly, usually at intervals of several months.

Limited Significance of the Official Exchange Rate -- In any event, the official exchange rates, whether calculated through the ruble or announced by the governments, are used for accounting purposes only. Because East European currencies are not convertible, no exchange of those currencies occurs in commercial transactions. In the trade of East European countries with

each other and with the USSR, the official rates provide accounting units for converting currencies; trade imbalances are settled with commodities, not cash. In their trade with the West, the official rate presumably is used to translate hard currency values into the national unit of account. All trade statistics published by East European countries are cited in national currency units. The actual financial actions with the West are settled in Western currencies.

Changes in the Official Exchange Rate Since 1971 -- Because East European official exchange rates are pegged to the Soviet ruble, and because the Soviet ruble has appreciated relative to the dollar by about 20% since 1971, the East European currencies have similarly appreciated relative to the dollar in terms of their official exchange rates. On the other hand, neither the exchange rates among the East European countries nor their exchange rates with the USSR have changed since 1962, as noted earlier in this paper. The recurring announcements by East European monetary authorities of changes in the official rate relative to all Western currencies since 1971 reflect the effects of world monetary fluctuations as measured by the Soviet ruble, to which their currencies are pegged. Thus, the official East European rates have been revalued not only relative to the dollar but also relative to other declining currencies such as the British pound and the Italian lira. On the other hand, the rates have been devalued relative to such currencies as the West German mark and the French and Belgian francs.

Non-Commercial Rates

Purpose -- Whereas commercial rates involve transactions outside the country, non-commercial rates involve goods and services sold to, and consumed by, foreigners within the country's borders. These include receipts and expenditures by tourists and embassies, by users of international transportation and telephone and telegraph services, and by individuals and institutions making remittances. Non-commercial rates in Eastern Europe were initiated in the late 1950s. They are more favorable to foreigners than the commercial (official) rate, and are intended to encourage Western tourism. These higher rates are a tacit admission that the commercial (official) rates overvalue the relative purchasing power of the domestic currency.

The Tourist Rate -- The latest tourist rates quoted by the monetary authorities, and the differences between them and the latest quoted official rates, are shown below:

	Units per US Dollar	Difference from Official Rate (Percent)
Bulgaria (leva	1.20	+ 22.5
Czechoslovakia (crown)	10.15	+ 73.8
East Germany (mark)	2.50	0
Hungary (forint)	23.4	+155.7
Poland (zloty)	33.20	+900.0
Romania (lei)	12.00	+141.5

During 1974, Bulgaria and Romania revalued their tourist rates -- that is, reduced the premium -- because of the high

inflation rates in the West. These two countries are more dependent on tourism for hard currency earnings than are the other East European countries, and seem confident that the reduced premium will not curb the inflow of Western tourists.

US Annuitants in Poland -- Poland offers a unique incentive to US annuitants -- the so-called PKO rate. Under this system, US annuitants cash their annuity checks at the Polish welfare Bank (PKO) and receive 60 zlotys per dollar. By mutual agreement between Poland and the United States, the zlotys are drawn from US PL480 holdings of local currency in Poland. On 1 January 1975, the PKO rate -- which applied to some transactions other than US annuitants, such as other remittances from abroad -- will be reduced to coincide with the tourist rate. US annuitants, however, will still receive the rate of 60 to 1.

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